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Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 ISO-00 SP-02 USIA-06 AID-05

NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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O R 131332Z JUL 76
FM AMEMBASSY PARIS
TO DEPARTMENT OF TREASURY IMMEDIATE
INFO SECSTATE WASHDC 2925
AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS

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PASS FEDERAL RESERVE AND COMMERCE

E. O. LL662: N/A
TAGS: EFIN, FR
SUBJECT: PARIS FOREX MARKET

L. SUMMARY: THE GRADUAL DOWNWARD DRIFT OF THE FRANC ACCELERATED SHARPLY YESTERDAY. TODAY IS A HALF DAY WITH BANKS CLOSING AT NOON. EARLY MORNING TRADING SUGGESTS FURTHER WEAKENING FROM A FRANC/DOLLAR RATE OF 4.78 YESTERDAY TO 4.79 TODAY. BANK OF FRANCE INTERVIEWED LIGHTLY AND DID NOT RESIST UNDERLYING TREND. SOME MARKET OPERATORS BELIEVE THAT AUTHORITIES REALLY DESIRE DOLLAR EXCHANGE RATE TO MOVE TO 4.80 TO 4.85 AND THAT BANK OF FRANCE HAS CHOSEN HOLIDAY PERIOD AS BEST TIME TO ACHIEVE THIS GOAL. END SUMMARY.

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2. CLOSING YESTERDAY AT FRANCS 4.78 TO THE DOLLAR AND

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AT A HISTORIC LOW OF SWISS FRANC 0.51 TO THE FRANC, THE FOREX MARKET IN EARLY MORNING TRADING REVEALS CONTINUED SELLING PRESSURE, FEATURING A NUMBER OF QUITE LARGE INDIVIDUAL TRANSACTIONS MAINLY BY MULTI-NATIONAL CORPORATIONS. BANKS CLOSE AT NOON TODAY AND CLOSING RATES WILL BE REPORTED BY SEPTEL.

3. FOLLOWING WITHDRAWAL FROM THE EC "SNAKE" THE FRANC DEPRECIATED BY ONLY 3.5 TO 4 PERCENT AGAINST THE STRONGER CURRENCIES. THIS WAS PARTLY DUE TO A LARGE VOLUME OF FORWARD CONTRACTS THAT RAN OFF BY MID JUNE. SINCE THEN THERE HAS BEEN A VERY GRADUAL SLIDE IN THE SPOT RATE. UNDERLYING THIS IS A FOREX MARKET ASSESS-MENT THAT THE FRANC WILL MOVE TOWARD A DOLLAR RATE CLOSE TO 5 TO 1 BY FALL, BASED MAINLY ON THE EXPECTATION OF AN INFLATION RATE IN EXCESS OF 11 PERCENT THIS YEAR.

4. THE TIMING OF YESTERDAY'S MOVEMENT LEADS MANY HERE TO BELIEVE THAT THE AUTHORITIES ARE SEEKING A NEW LEVEL FOR THE FRANC WITH A DOLLAR RATE OF 4.80 TO 4.85 BEING MORE OR LESS THE CONSENSUS IN THIS RESPECT. THE FULL HOLIDAY SEASON IS JUST BEGINNING AND CLIENT FOREX BUSI-NESS IS ALWAYS BUNCHED AROUND THIS SEASON. MANY FRENCH FIRMS COVER FORWARD FOR AUGUST WHEN EVERYTHING IN FRANCE EXCEPT HOTELS, RESTAURANTS AND CASINOS OPERATES AT ABOUT 50 PERCENT OF NORMAL LEVELS. THUS, ACCORDING TO THESE VIEWS, THE AUTHORITIES HAVE DECIDED TO USE SEASONAL MARKET FACTORS TO ACHIEVE A DIFFERENT LEVEL FOR THE FRANC. THIS MAY STILL BE RISKY AS THINGS COULD GET OUT OF HAND SO THE FOREX MARKET EXPECTS A REACTION BY THE BANK OF FRANCE WITHIN A FEW DAYS. TRADING NEXT THURSDAY COULD BE SIGNIFICANT IN THIS RESPECT IF THE FRANC DOLLAR RATE REACHES OR EXCEEDS 4.80.

5. ALL EVIDENCE AVAILABLE INDICATES THAT BANK OF FRANCE INTERVENTION DESIGNED TO SMOOTH OUT THE DOWNWARD SLIDE. PARIS FOREX MARKET IS CONVINCED IT WILL CONTINUE TO DO SO UNTIL RATES REACH DESIRED LEVEL. MOST COMPARE CURRENT SITUATION TO PERIOD SOME TIME AGO WHEN BANK OF FRANCE CLEARLY DESIRED FRANC DOLLAR RATE AROUND 4.40
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AND INTERVENED ACCORDINGLY. FOREX MARKET EXPECT RE-SUMPTION THIS INTERVENTION PATTERN BEFORE RATE REACHES 5 TO 1, MAINLY BECAUSE OF INFLATIONARY IMPACT OF A WEAKER FRANC AND ALSO BECAUSE A RATE BETWEEN 4.80 AND 4.90 WOULD BE ADEQUATE TO REDRESS THE LOSS OF COMPETITIVENESS OF FRENCH EXPORTS.

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